STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

May 24, 2010

S&P Assigns Recovery Ratings To Debt Of 22 LRGs And Affirms Issue Ratings On Those 22 LRGs

Primary Credit Analysts:
Boris Kopeykin, Moscow (7) 495-783-4062; boris_kopeykin@standardandpoors.com
Sebastian Briozzo, Buenos Aires (54) 11 4891 2120; sebastian_briozzo@standardandpoors.com
Christian Esters, CFA, Frankfurt (49) 69-33-999-242; christian_esters@standardandpoors.com

Secondary Credit Analysts:
Felix Ejgel, Moscow (7) 495-783-4060; felix_ejgel@standardandpoors.com
Jean-Louis Renaud, Moscow (7) 495-783-4097; jean-louis_renaud@standardandpoors.com
Delfina Cavanagh, Buenos Aires (54) 11-4891-2153; delfina_cavanagh@standardandpoors.com

Table Of Contents

S&P Assigns Recovery Ratings To Debt Of 22 LRGs And Affirms Issue Ratings On Those 22 LRGs

Following the introduction of Standard & Poor's Ratings Services' recovery rating methodology for local and regional governments (LRGs) (see "Methodology And Assumptions: Assigning Recovery Ratings To International Local And Regional Governments' Speculative-Grade Debt," published on RatingsDirect on Feb. 3, 2009), Standard & Poor's has assigned recovery ratings to the senior unsecured debt of 22 speculative-grade LRGs in Central and Eastern Europe and Latin America. At the same time, we affirmed the issue ratings on the bonds of all 22 LRGs. For the full list of issuers and ratings affirmed and assigned, along with our rationale for each recovery rating, see table 2 under the subsection below headed "LRG Debt Recovery Ratings".

Table 1 describes our recovery ratings.

Table 1

Standard & Poor's Global Sovereign Recovery Rating Scale For Speculative-Grade Issuers

Recovery rating	Recovery expectations	Recovery range	Issue rating*
1+	Highest expectation, full recovery	100%	+3 notches
1	Very high recovery	90%-100%	+2 notches
2	Substantial recovery	70%-90%	+1 notch
3	Meaningful recovery	50%-70%	0 notches
4	Average recovery	30%-50%	0 notches
5	Modest recovery	10%-30%	-1 notch
6	Negligible recovery	0%-30%	-2 notches

*Indicates "notching" relative to Standard & Poor's issuer credit rating.

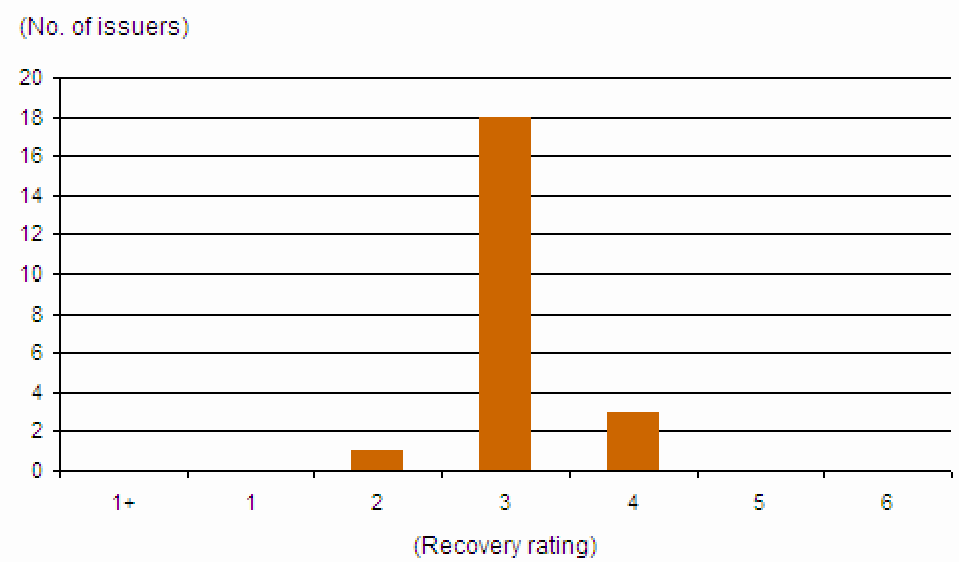
We also expect to assign recovery ratings to the debt of other LRGs with Standard & Poor's speculative-grade issuer credit ratings should they issue bonds in the future.

Narrow Ratings Distribution

The distribution of Standard & Poor's recovery ratings on LRGs currently does not extend to either the "strongest" ('1+' in our recovery rating scale) or the "weakest" ('6' in our recovery rating scale) ends of the recovery rating scale (see chart). This is because there is typically no insolvency regime for LRGs in most jurisdictions, and we do not expect asset foreclosures in such jurisdictions. Therefore, we estimate that the possibility of a very high recovery is limited unless the default scenario is a very short-term liquidity crisis.

On the other hand, because there is no equivalent to corporate liquidation for LRGs, we would expect that, given the ongoing existence of LRGs even after default, at least some recovery may be expected. In addition, most issuers included in our sample are to a certain extent market oriented, in our view. We therefore would not generally expect recovery rates at the bottom end of the scale as a result of debt repudiation.

Distribution Of LRG Recovery Ratings As Of May 24, 2010



Issuer Credit Ratings And Recovery Ratings Are Different Concepts

There are a number of factors identified in our LRG recovery rating analysis that are similar to those considered when assessing the probability of a default when assigning the issuer credit rating. However, the simulation of a default scenario could lead to conclusions on an LRG's ability to make debt service payments and recovery incentives in the event of default that are distinct from those in a predefault situation. Therefore, in our opinion, an LRG with a higher issuer credit rating might well have weaker recovery prospects after a default, resulting in a lower recovery rating.

Generally, we observe low correlation between the issuer credit rating of an LRG and the recovery rating on its senior unsecured debt. For example, the Republic of Bashkortostan has an issuer credit rating of BB+/Stable/--, and the recovery rating on its senior unsecured debt is '3', whereas our issuer credit rating on the City of Buenos Aires is B-/Stable/--, while the recovery rating on its senior unsecured debt is '2'.

Our '2' recovery rating assigned to the city of Buenos Aires, Argentina, means that if it issued local currency-denominated debt, we could rate it one notch higher than the issuer credit rating, based on our general recovery framework (see "Standard & Poor's Ratings Definitions," published April 13, 2010, on RatingsDirect). However, we do not rate the city's foreign currency debt higher than Standard & Poor's Transfer and Convertibility Assessment on Argentina.

Recovery Ratings Reflect Analysis Of Simulated Default Or Restructuring Scenario

Standard & Poor's starts its recovery analysis by identifying what it views as the most likely default or restructuring scenarios. These scenarios set the relevant parameters for the subsequent recovery analysis, as they envisage the economic, fiscal, and political conditions around default. The default or restructuring scenarios underlying the recovery analysis typically are linked to the key rating constraints that affect the issuer credit rating.

It is important to point out that the recovery analysis is performed under a hypothetical assumption, which considers that the default or restructuring scenarios have occurred. Obviously the likelihood that a given scenario would actually occur can vary. This is reflected in our issuer credit ratings on the 22 LRGs covered in this release, which range between 'CCC+' and 'BB+'. In our opinion, they result in a wide variety of probabilities of default scenarios that could take place for the 22 LRGs.

Although all our recovery analyses are performed under hypothetical scenarios, in our opinion, the default scenario for a 'BB+' rated issuer is less likely to actually occur than a default scenario for a 'CCC+' rated issuer.

The majority of our default scenarios for the 11 Russian LRGs covered in this action relate to their inability to refinance expiring short-term debt in domestic markets. This might, in our view, be concurrent with a major financial crisis, and, in some cases, be exacerbated by local economic turmoil resulting in inability to repay debt under this hypothetical default scenario.

In contrast, in the cases of relatively highly rated Republic of Bashkortostan and Leningrad Oblast (BB/Stable/--), our hypothetical default scenario for the recovery rating springs from an assumption about the issuer's unwillingness to pay debt in full and on time under some specific circumstances. Although there is differentiation in our LRG issuer credit ratings, all our LRG recovery ratings in Russia are '3'. This is primarily because, in most cases, the assumed default scenarios are fairly similar.

We have assigned recovery ratings to the unsecured debt issued by four rated Ukrainian cities. In three of the cases we assigned a weaker recovery rating of '4', versus the '3' recovery ratings we assigned to the 11 Russian LRGs covered in this action. This is in large part due to our opinion that these three Ukrainian cities have a weaker ability to repay their debts after a default in light of their weaker economic base and the less-supportive and flexible system of inter-budgetary relations in Ukraine. The only issuer to whose senior unsecured debt we have assigned a '3' recovery rating is the City of Ivano-Frankivsk (B-/Stable/--), which has the lowest debt among the four issuers with recovery ratings in Ukraine.

We have assigned a recovery rating of '3' to each of the senior unsecured debt issues of the three rated Bulgarian cities, indicating that the recovery expectations are similar for each of the three issuers. These recovery ratings mainly reflect our view of the relatively strong incentives we believe these issuers might have to repay their debt after a default to ensure EU cofinancing of their significant infrastructure needs.

In the case of Argentina, we assigned a stronger recovery rating to the senior unsecured debt issued by the City of Buenos Aires than in the case of its two Argentine peers. This is because of our view of the city's higher ability to provide strong recovery due to its low debt burden, financial flexibility both in terms of revenues and expenditure, and its large degree of autonomy from the central government, as well as a proven willingness to do so, as confirmed by past experience.

Note: Issue ratings for rated debt are based on a blend of default and recovery prospects. The issue ratings are therefore determined relative to the issuer credit rating, as presented in table 1.

LRG Debt Recovery Ratings

Table 2

Recovery Rating Rationale

Issuer

Bashkortostan (Republic of)

Issuer credit rating as of May 24, 2010	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
BB+/Stable/--	3	Under the default scenario, we assume that a local economic crisis or fiscal revenue redistribution would result in unwillingness to meet debt obligations in order to make a political statement. The republic is exposed to tax proceeds from a number of petrochemical enterprises; Therefore, the worsening of fuel or petrol market conditions or unfavorable changes in the ownership or tax registration of these enterprises might affect Bashkortostan's tax revenues. Because we think any such changes are unlikely to take place without political approval from the federal government, or very harsh macroeconomic decline, default might be used as a political response even when the republic might actually have the ability to pay.	Under this scenario, the recovery rating on Bashkortostan's debt is supported by the republic's low debt, strong liquidity, and large assets available for sale, as well as the relative importance of market access for a large and politically visible region. However, under the selected default scenario, which is driven by willingness (rather than ability) to pay, we might expect political reasons for weaker recovery, which could constrain incentives to offer quick and high recovery. Other constraints to recovery include our view of weak financial flexibility and no material support expected from the central government.	Boris Kopeykin

Irkutsk Oblast

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
B/Positive/--	3	Under our default scenario, we assume that inability to refinance is the default trigger, for instance as a consequence of turmoil on local financial markets that would become inaccessible for LRGs. Under this scenario, poor access to both market and state funding would be exacerbated by a local economic crisis, leading to reduction of the oblast's revenues and still-sizable short-term debt, keeping debt service above 15% of operating revenues.	The recovery rating is supported by the importance of access to capital markets for the region, which is one of the largest borrowers in the local market. High political priority of debt service compared with other expenditures and evidence of support in the form of three-year soft budget loans and additional subsidies also support the recovery rating, in our view. The recovery rating is constrained by high short-term debt under the selected default scenario, our view of weak financial flexibility, and a lack of assets available for sale.	Felix Ejgel

Samara Oblast

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
BB+/Negative/--	3	Under our default scenario, we assume that inability to refinance is the default trigger, for instance as a consequence of turmoil on local financial markets that would become inaccessible for LRGs. This scenario would likely be exacerbated by economic difficulties in two main industrial sectors--automotive and oil production--that would result in a weaker budgetary performance and growing debt burden, as well as sizable short-term debt.	The recovery rating is supported by the importance of access to capital markets for the region, which is one of the largest borrowers on the market. In our opinion, the recovery rating is constrained by high short-term debt, weak financial flexibility, and our expectation that there will not likely be any material support from the federal government. The lack of assets available for sale and the average political priority of debt service compared with other expenditures also pressure the recovery rating.	Felix Ejgel

Table 2

Recovery Rating Rationale (cont.)

Novosibirsk (City of)

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
BB-/Negative/--	3	Under our default scenario, we assume that inability to refinance is the default trigger, for instance as a consequence of turmoil on local financial markets that would become inaccessible for LRGs. We also assume that under financial market difficulties, in a pursuit of cheaper funding, the city could increase its holding of short-term debt, thereby increasing its debt burden.	Reported availability of some ready-to-sell assets and somewhat higher institutional stability due its importance as a large city support the recovery rating. At the same time, the recovery rating is constrained by high short-term debt under the expected default scenario, our view of weak financial flexibility, and the need to implement non-debt-important social expenditures. A weak institutional framework and lack of an insolvency framework for LRGs also pressure the recovery rating.	Felix Ejgel

Sakha (Republic of)

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
BB-/Stable/--	3	Under our default scenario, we assume that inability to refinance is the default trigger, for instance as a consequence of turmoil in local financial markets that would become inaccessible for LRGs. Moreover, it would likely be worsened by a local economic crisis in major industries such as diamond, coal, and oil production, leading to weaker-than-planned revenues.	The recovery rating is supported by significant assets available for sale, including shares in largest enterprises in Sakha; the importance of access to the capital markets, as Sakha is one of the largest borrowers in the market; and by our expectation that the LRG will wish to maintain the reputation of a relatively visible issuer. The recovery rating is constrained by high short-term debt under the selected default scenario; our view of weak financial flexibility; and the only average political priority of debt service compared with other expenditures. Our view of the government's limited ability to bail out the region and the lack of an institutional framework for LRG default or significant precedents of past bail-outs (except for one publicly reported case related to Eurobonds) also pressure the recovery rating.	Felix Ejgel

Tomsk Oblast

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
B/Positive/--	3	Under our default scenario, we assume that inability to refinance is the default trigger, for instance as a consequence of turmoil in local financial markets that would become inaccessible for LRGs. Because the oblast would not likely be able to raise medium-term borrowings under market deterioration, it would likely accumulate short-term debts, while the budgetary performance would deteriorate following a hypothetical economic contraction.	The recovery rating is supported by moderate debt levels and the importance of access to capital markets for the oblast, which is one of the largest borrowers in the local market. We expect the high political priority of debt service compared with other expenditures also to support the rating. The recovery rating is constrained by high short-term debt; our view of weak financial flexibility; and limited ready-for-sale assets.	Felix Ejgel

Table 2

Recovery Rating Rationale (cont.)

Krasnodar Krai

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
BB/Stable/--	3	Under our default scenario, we assume that local economic crisis resulting in falling budget revenues and the inability to refinance are the default triggers. Under negative national performance, the region's key industries (such as transport and services) might be somewhat affected and undermine Krasnodar's budget revenues. Despite moderate debt, under closed domestic financial markets this might result in the absence of timely and full refinancing. However, we do not regard material investment needs related to the 2014 Winter Olympics as an additional stress to our scenario, because most investments are to come from the federal budget and federally-controlled companies.	The recovery rating is supported by the krai's low debt burden and some assets available for sale. We assume that, as an important region with five million inhabitants and hosting the Olympic Games in 2014, it can expect support from the central government. The recovery rating is constrained by our view of weak financial flexibility and the relatively low political priority of debt service compared with other expenditures. The krai's reliance on access to capital markets is low because the central government is the key investor in the medium term and management will likely focus on passing through federal capital subsidies rather than improving the sophistication of its debt policy.	Karen Vartapetov

Krasnoyarsk Krai

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
BB+/Negative/--	3	Under our default scenario, we assume that inability to refinance is the default trigger, for instance as a consequence of turmoil on local financial markets that would become inaccessible for LRGs. In addition, a local economic shock resulting from lower nickel prices and slower-than-expected development of the krai's energy projects and the krai's intention to keep investing in local infrastructure could lead to a substantially weaker budgetary performance. Under such circumstances, we assume the short-term portion of the krai's debt to accumulate rapidly to finance a widening deficit after capital expenditures.	The recovery rating is supported by the importance of access to capital markets for the krai, which is one of the largest borrowers in the market, and by high reputation costs for the administration of a relatively large region and financially important region. The recovery rating is constrained by high short-term debt, our view of weak financial flexibility, only average political priority of debt service compared with other expenditures, the government's limited ability to bail out the krai, and the lack of an institutional framework for LRG defaults or significant precedents of past bail-outs (except for one publicly reported case related to Eurobonds) also pressure the recovery rating.	Felix Ejgel

Volgograd Oblast

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
BB-/Negative/--	3	Under our default scenario, we assume that inability to refinance is the default trigger, for instance as a consequence of turmoil in the domestic financial markets that would become inaccessible for LRGs. The oblast has accumulated some short-term debt resulting in expectations of a moderate 7%-8% debt service in 2010-2012. Reportedly it plans to continue rapid debt accumulation in 2010-2012. Given lack of flexibility, weak financial performance, and a very weak liquidity position, we assume that the default scenario would be triggered by the oblast's inability to service its debt when access to refinancing is interrupted.	The recovery rating is supported by the acknowledged importance of market access for the oblast, due to financing needs, and average reputation costs for the administration, as Volgograd is not among the largest borrowers in the market. The recovery rating is constrained by high short-term debt, our view of weak financial flexibility and the absence of assets available for sale. Our view of an average political priority of debt service compared with other expenditures, the fact that access to markets is generally considered less important than for some Russian peers, and the absence of an institutional framework for LRG defaults or significant precedents of bailouts in the past (except for one case related to Eurobonds) also pressure the recovery rating.	Boris Kopeykin

Table 2

Recovery Rating Rationale (cont.)

Tver Oblast

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
B+/Negative/--	3	Under our default scenario, we assume that inability to refinance is the default trigger, for instance as a consequence of turmoil on domestic financial markets that would become inaccessible for LRGs. The oblast has accumulated some short-term debt resulting in expectations of a moderate 7%-10% debt service in 2010-2012. Reportedly it continues to refinance with short-term debt. Given lack of flexibility, weak financial performance, and a weak liquidity position, we assume that the default would be triggered by the oblast's inability to service its debt when access to refinancing is interrupted.	The recovery rating is supported by the importance of market access for one of the largest borrowers in the market and recognized, by the oblast management, of the high political priority of debt service compared with other expenditures for this relatively important. The recovery rating is constrained by our opinion of high short-term debt, weak financial flexibility, and the lack of assets available for sale. The absence of a developed institutional framework for LRG defaults also pressures the recovery rating.	Boris Kopeykin

Leningrad Oblast

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
BB/Stable/--	3	Unwillingness to meet guarantee obligations is assumed as a default trigger under this scenario. We believe the oblast remains very prudent in managing its direct debt. However, while guarantees were only about 6% of operating revenues at the end of 2009, the oblast reportedly plans to extend its guarantee issuance in 2010-2012. So far the main project guaranteed is a hotel on the Black Sea coast (outside the oblast territory) constructed for the oblast. We understand the oblast foresees payments on guarantees in its budget law for 2010-2012, but has not had to make payments on guarantees in the past few years. We assume that the scenario default would be triggered by the oblast's unwillingness to serve its guarantees if or when called upon as a political response. Systemic or economic stress might be cited as the reasoning for not honoring the guarantees.	The recovery rating is supported by our opinion of a low debt burden, some assets available for sale, and the importance of access to capital markets for this relatively important region with 1.6 million inhabitants. We regard unwillingness to meet guarantee obligations as being at the root of the default scenario. We would assume that this constrains the incentives to offer quick or high recovery. We have already observed the oblast's relatively low political priority given to debt service over other expenditures. The recovery rating is also constrained by our view of weak financial flexibility and the absence of an institutional framework for LRG defaults.	Boris Kopeykin

Kyiv (City of)

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
CCC+/Stable/--	4	Under our default scenario, we assume that inability to refinance its largely foreign currency-denominated debt is the default trigger, for instance as a consequence of turmoil in domestic financial markets that would become inaccessible for LRGs, as well as a portion of GREs' overdue payables. The city is the largest borrower among Ukrainian LRGs, with direct debt mostly consisting of Eurobonds, exposing the city to foreign currency risks. Given the city's weak financial performance and low financial flexibility, we believe it unlikely that it would be able to repay debt in 2011 without uninterrupted access to refinancing, possibly coming from the central government. We assume that refinancing could be difficult because of the city's need to cover for some of its GREs' payables (now estimated at 40% of the city's total revenues).	The recovery rating is supported by the city's proven capacity to lobby and receive budget loans from the central government. Given material capital needs, we believe future access to capital markets is important for the capital city, which accounts for 80% of the LRG bond market and is generally regarded as wealthy in the Ukrainian context. Some assets available for sale also support the rating. The recovery rating is constrained by our view of a high debt burden, exposure to foreign currency risks and a bullet bond repayment, and the only average political priority of debt service over other expenditures. Noted weak financial flexibility, the absence of an institutional framework for LRG defaults and restructuring, and limited support from the sovereign under a systemic default scenario also pressure the recovery rating.	Karen Vartapetov

Table 2

Recovery Rating Rationale (cont.)

Lviv (City of)

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
CCC+/Negative/--	4	Under our default scenario, we assume that inability to refinance is the default trigger, for instance as a consequence of turmoil in domestic financial markets that would become inaccessible for LRGs. The city started to borrow in 2007 with a debut UAH92 million bond issue, due to vast infrastructure needs, and the fact that the city will be hosting the European Football Championships in 2012. The city continued to accumulate debt in 2009 with another UAH200 million payment. Although we believe debt service remains modest in the international context, given the city's weak financial performance and very low financial flexibility. We do not expect Lviv would be able to repay debt without uninterrupted access to refinancing, making liquidity particularly important.	The recovery rating is supported by the importance of access to capital markets for the city due to large capital-expenditure needs, especially given preparation for the football championships. The recovery rating is constrained by high short-term debt, our view of very weak financial flexibility, and the lack of significant assets to sell. Moreover the rating on the city dropped to 'SD' in January 2010 and the city seemed unwilling to make guarantee payments in 2006-2010. Furthermore, the absence of an institutional framework for LRG defaults and restructuring and only very limited support from the sovereign under a systemic default scenario also pressure the recovery rating.	Boris Kopeykin

Lugansk (City of)

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
B-/Stable/--	4	Under our default scenario, we assume that inability to refinance is the default trigger, for instance as a consequence of turmoil in domestic financial markets that would become inaccessible for LRGs, combined with significant past due payables of the city's GREs. Reportedly the city's debt is due to expand to 13% of operating revenues in 2010, with a small bond due in 2011-2012. With very tight capital markets, weak own revenues, and poor performance of the central government, the city would not likely be able to secure repayment or refinancing facilities without access to the liquidity market. This would be exacerbated by significant payables of the city's GREs (about 50% of budget revenues) under our scenario. When under pressure the city might overborrow and prefer to finance vital utilities and salaries instead of debt service.	The recovery rating is supported by the city's moderate debt level. The recovery rating is constrained by our opinion of weak financial flexibility, lack of assets available for sale, and low importance of access to capital markets and the consequent only average political priority of debt service over other expenditures. The fact that debt service discipline is dependent on key people in the management team, the absence of an institutional framework for LRG defaults and restructuring, and very limited support from the sovereign under a systemic default scenario also pressures the recovery rating.	Karen Vartapetov

Ivano-Frankivsk (City of)

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
B-/Stable/--	3	Under our default scenario, we assume that inability to refinance under a tight liquidity position is the default trigger, for instance as a consequence of turmoil in domestic financial markets that become inaccessible for LRGs. The city's bond of UAH5.5 million is due in 2011. Poor liquidity, coming from weak revenues, deteriorating capital markets, and the lack of support from the central government might constrain the refinancing capacity and increase the risk of default.	The recovery rating is supported by our opinion of the city's very low debt levels. The recovery rating is constrained in our view by weak financial flexibility, lack of assets available for sale, and the low importance of access to capital markets. The average political priority of debt service over other expenditures, low visibility, some reported tension in the city legislature that might result in the change of debt repayment plans, the absence of an institutional framework for LRG defaults and restructuring, and limited support from the sovereign under systemic default scenarios also pressure the recovery rating.	Karen Vartapetov

Table 2

Recovery Rating Rationale (cont.)

Bucharest (City of)

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
BB+/Negative/--	3	Under our default scenario, we assume that an economic crisis combined with currency depreciation would result in closed refinancing for Bucharest's €500 million bullet bond, resulting in a default. We might expect that under these circumstances, the city would be unable to repay the bond, which would be equivalent to 100% of operating revenues, given the likely currency devaluation and lower revenues under the selected scenario.	The recovery rating is supported by our opinion of the high importance of access to capital markets for the capital city and by the demands on Romania of EU membership, which could be another reason for paying. The new institutional framework (although untested), which provides rules for financial administration and support by the central government, also support the recovery rating. The recovery rating is constrained by high debt burden and foreign currency exposure. Our view of the absence of substantial assets for sale; average political priority of debt service compared to other expenditures and lack of predictability of the new framework under systemic stress scenario causing such a large default also pressure the recovery rating.	Jean-Louis Renaud

Varna (City of)

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
BB/Stable/--	3	We assume that macroeconomic stress is the most likely trigger for our default scenario. Generally, Bulgarian LRGs depend on central-government transfers for a large part (more than 50%) of their revenues. In this hypothetical situation, the economy would be severely stressed, leading to a contraction in revenues. Under this scenario the desire to maintain expenditures at a minimal level would compel the city to take on short-term debt. But closed refinancing, depleted cash levels, and mounting debt service would result in a default by 2012 under this scenario	The recovery rating is supported by the importance of access to capital markets, given high infrastructure needs, which depend (inter alia) on EU cofinancing. We believe this need transforms into high political priority of debt service. EU membership also constitutes a payment incentive. Also supporting the rating is the high reputation cost for the country to not provide bailout, as EU members are expected to repay debt. So, we expect the central government to make efforts to ensure high recovery in case of an LRG default. The recovery rating is constrained by large refinancing risks and few assets available for rapid sale. Competing priorities of other classes of expenditures (e.g., social expenditures) could also dampen debt service priority, in our view.	Jean-Louis Renaud

Table 2

Recovery Rating Rationale (cont.)

Stara Zagora (City of)

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
BB/Negative/--	3	We assume that macroeconomic stress is the most likely trigger for our default scenario. Bulgarian LRGs depend on central-government transfers for more than 50% of their revenues. In this hypothetical situation, the economy would be severely stressed, leading to a contraction in revenues. The desire to maintain expenditures at a minimal level might compel the city to take on short-term debt. But closed refinancing, depleted cash levels, and mounting debt service would result in a default by 2012 under this scenario.	The recovery rating is supported by the presumed importance of access to capital markets, given high infrastructure needs, which depend (inter alia) on EU co financing. We believe this transforms into high political priority for debt service. EU membership also constitutes a payment incentive. Also supporting the rating is the high reputation cost for the country to not provide bailout, as EU members are expected to repay debt. We expect the central government to make efforts to ensure high recovery in case of an LRG default. The recovery rating is constrained by our view of refinancing risks and few assets available for rapid sale. Competing priorities of other classes of expenditures (e.g., social expenditures) could also dampen debt service priority in our view	Jean-Louis Renaud

Plovdiv (City of)

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
BB+/Negative/--	3	We assume that macroeconomic stress is the most likely trigger for our default scenario. Bulgarian LRGs depend on central-government transfers for more than 50% of their revenues. In this hypothetical situation, the economy would be severely stressed, leading to a contraction in revenues. The desire to maintain expenditures at a minimal level would compel the city to take on short-term debt. But closed refinancing, depleted cash levels, and mounting debt service means the city might default by 2012 under this scenario. This problem would be amplified by turmoil in local or international financial markets under the selected scenario.	The recovery rating is supported by our view of the importance of access to capital markets and high political priority of debt service over other expenditures because of needed access to EU funding. Also supporting the rating is what we perceive as the high reputation cost for the country to not provide bailout, as EU members are expected to repay debt. We expect the central government to make efforts to ensure high recovery in case of a local government default. The recovery rating is constrained by our view of large refinancing risks and few assets available for rapid sale.	Felix Ejgel

Mendoza (Province of)

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
B-/Stable/--	3	The recovery analysis assumes that Mendoza would default in the context of national economic stress. The province's financial performance would be affected by an economic slow down and fiscal deterioration, a significant depreciation of the exchange rate, and high inflation affecting its debt burden. Under this scenario, we assume international and local capital markets would probably be closed. Mendoza would likely depend on central-government funding to close its financing gap. However, as a precondition to providing such financial assistance, the central government, the province's largest creditor (with 65% of total debt), might require the province to restructure its market debt under terms less favorable to investors, which might constitute a default according to our criteria.	Under this scenario, the recovery rating on Mendoza is supported by our opinion of its moderate debt burden, well below historical levels even under stress, by its relative flexibility to decrease real salary expenditures in an inflationary environment, and by its interest in keeping a good reputation with the capital markets. However, we note the province has limited financial flexibility, and we assume no liquidation of assets is possible. In addition, we consider that the sovereign could impose as a precondition to its continued provision of financial assistance: that the province introduce larger cuts on the restructuring proposals.	Delfina Cavanagh

Table 2

Recovery Rating Rationale (cont.)

Buenos Aires (City of)

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
B-/Stable/--	2	Given its recognized privileged position in terms of low debt burden and debt service and its flexibility, under the default scenario, we assume that Buenos Aires' default would most probably occur as a consequence of restrictions to access to and transfer of foreign currency needed to service debt and foreign exchange obligations, -which would affect the city's capacity to service its debt-, rather than as a consequence of worse economic conditions.	The strength for the recovery rating includes our assessment of a low debt burden well below historical levels, even under stress; financial flexibility, both in terms of revenues and expenditures; and the LRG's incentives to guard its recognized reputation with the markets. Moreover, in our observation, the city enjoys a large degree of autonomy from the central government, with no reliance on central-government financing or transfers. However, we note that the city's debt is highly exposed to foreign currency movements and no material support can likely, in our view, be expected from the central government.	Delfina Cavanagh

Buenos Aires (Province of)

Issuer credit rating	Recovery rating	Default or restructuring scenario	Recovery factors	Analyst
B-/Stable/NR	3	The most likely default scenario for the province of Buenos Aires would occur in the context of a national economic stress scenario. An economic slow down would result in fiscal deterioration and social needs could pressure the fiscal balance even more than currently. Given its reported structural fiscal imbalances and limited fiscal flexibility and the assumption that international and local capital markets would be closed, the province might default on its market debt under this stress situation. We assume that the province could ask the central government for financial assistance. However, the central government (the province's largest creditor with 61% of the total debt) might require the province to restructure its market debt in terms that are less favorable to investors, which would constitute a default according to our criteria.	As most of its debt is owed to the central government we believe this debt could be restructured in favorable terms providing greater financial margin. Moreover, no significant market debt is maturing over the medium term. However, we believe the province's structural fiscal deficit will likely continue to constrain financial flexibility over the medium term. Above-average social demands might continue to constrain fiscal flexibility as well, in our view. The sovereign could impose as a precondition to its continued provision of financial assistance to the province that the province introduce larger cuts on the restructuring proposals. In addition, political priorities might lead authorities at the provincial level to prioritize social spending, given the province's more delicate social situation and its affinity with the central government.	Sebastián Briozzo

Related Criteria And Research

- Methodology And Assumptions: Assigning Recovery Ratings To International Local And Regional Governments' Speculative-Grade Debt, Feb. 3, 2009
- Methodology And Assumptions: Rating International Local And Regional Governments, Jan. 5, 2009
- Standard & Poor's Ratings Definitions, April 13, 2010

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

Additional Contacts:
Karen Vartapetov, Moscow (7) 495-783-4018; karen_vartapetov@standardandpoors.com
Alexandra Balod, Moscow (7) 495-783-4096; Alexandra_Balod@standardandpoors.com
Myriam Fernandez de Heredia, Madrid (34) 91-389-6942; myriam_fernandez@standardandpoors.com
Valerie Montmaur, Paris (33) 1-4420-7375; valerie_montmaur@standardandpoors.com